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EXECUTIVE SUMMARY
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The Mining Sector in the EAIO

In concise…

The AEOI is home to a diverse range of mineral resources, whose deposits are not well-known owing to insufficient geological research. Some countries stand out globally as major mineral producers: Madagascar (3^{rd} largest producer of graphite); Rwanda (3^{rd} for tantalum; 5^{th} for tungsten and niobium); Kenya (7^{th} for zircon; 8^{th} for titanium); Sudan (3^{rd} for gold). The value of mineral exports across the region amounted to almost 9 bn USD in 2021, driven mainly by gold exports (Tanzania: 2.7 billion USD; Sudan: 2 billion USD). **In order to attract investors, the AEOI countries are revising their regulatory framework,** and are trying to regulate and formalize the artisanal sector, which still dominates mining production. **The development of the sector, however, remains constrained by a number of structural factors**, while considerable progress is expected as it pertains to improving working conditions and environmental conservation.

In detail …

Thanks to its diverse mineral resources, the AEOI region is gradually developing its mining sector

Located in a geologically rich region, EAIO has diversified mineral resources: precious metals such as gold (Tanzania, Sudan, Uganda, Rwanda) or diamond (Tanzania); industrial ores such as gypsum (Uganda, Ethiopia), graphite (Madagascar), zircon (Kenya); Ferrous metals such as titanium (Kenya), tantalum and niobium (Rwanda, Burundi) or nickel (Madagascar, Burundi); Other metals such as tin (Rwanda), copper (Eritrea) or zinc (Eritrea). **In the Indian Ocean, Comoros, Seychelles, and Mauritius have no significant resources or extraction activities**. Despite the mineral-diversity, the resource estimates are not well-known due to lack of up-to-date geological studies and accurate qualitative and quantitative assessments.

Some countries are among the leading mineral producers. Madagascar is currently the world's third largest producer of graphite, and has potential to become a key supplier of this ore. Rwanda is one of the world's largest producers of 3 minerals including tantalum – 3^{rd} largest producer. Sudan is the world's 10^{th} gold producer while Tanzania holds the 17th position. Kenya stands out as the 7th zircon producer and 8th titanium producer. **These resources are an important source of income and foreign exchange for the countries of the region**. The value of mineral exports across the region was nearly 9 billion USD in 2021, driven mainly by gold exports. Tanzania, for example, exported 3.0 billion USD worth of precious stones and metals, including USD 2.7 billion of gold.

The mining sector is one of the pillars of national economic development plans for many governments in the region. The GDP contribution targets are high and often unrealistic. In the Vision 2030 plan, Kenya set out to increase the contribution of the mining sector to 10 % of the GDP in 2030, from a low of 1.1 % of the GDP in 2021**. The development of mining activity remains constrained by certain structural factors,** such as the lack of reliable and recent data on resources; lack of financial support for exploration activities; the need for institutional capacity building and training of skilled labour; the prevalence of the informal sector and the illicit trade in minerals as well as inadequate infrastructure (land transport, ports, adequate access to electricity).

Regulatory frameworks have recently been revised to encourage private and foreign investment

Mineral and mineral resources discovered and exploited are the property of States (or in rare cases, local authorities) for all countries in the area. Governments are, through dedicated ministries, in charge of managing these resources and issuing mining permits. In order to create an attractive regulatory and tax environment for investors, many countries have recently created or reformed their mining regulations. **Burundi adopted a mining code in 2013, while Kenya and Djibouti revised theirs in 2016. Tax incentives** have also been adopted. In Rwanda, among other measures, there has been introduction of a corporate tax exemption for mining companies that set up their headquarters in the country.

While tax and regulatory measures have been put in place to enhance the attractiveness of the sector, **the regulatory framework also stems from the necessity to guarantee revenue to the governments and more broadly, contribute to national economic development. Some States impose a mandatory threshold for state's stake in mining companies**. In Eritrea, the state holds at least 40% of the shares in all operations. **A system of royalties payable by holders of mining licenses / permits is also applied to the resulting gross revenue.** Depending on the country, these fees may benefit the central government, local authorities and communities living near the extraction site. In addition to royalties, there are taxes on the income of companies and individuals engaged in mining activities, which adds to the revenue collected by the government.

Local content requirements may be imposed on mining companies in some countries to encourage local labor and subcontractors. This aspect is an integral part of several mining regulations, the goal being giving preference to local materials, products, services and labor. The requirements are however not always linked to specific thresholds (Kenya, Burundi, Uganda).

Despite a vibrant informal and artisanal sector, foreign multinationals dominate large-scale extraction and processing activities

The mining sector in AEOI remains dominated by informal or small-scale activities. In Rwanda, Uganda and Sudan, artisanal businesses account for 80 % of the countries' mining production. Artisanal farming also remains the main mode of operation in Tanzania and Ethiopia, although measures are gradually being put in place to formalize the sector. **The involvement of foreign multinationals is strong on large-scale extraction projects.** These multinationals include Australian players such as *Rio-Tinto* in Madagascar; Canadians such as *NextSource* in Madagascar; South African companies for example *AngloGold Ashanti;* the British such as *Petra Diamond* in Tanzania. Chinese companies are also very active in the sector for example *Zijin* operating the Bisha copper and zinc mine in Eritrea. **The recent increase in world commodity prices,** linked to the war in Ukraine, and in the long run, **the expected increase in demand for certain minerals linked to energy transition**, **could strengthen the interest of multinationals** for mineral exploration in the region.

No French or European company is really active among the major mining companies present in the region. However, the country's mining activities can involve many French companies indirectly. Nearly 208 French subcontractors are involved in the Ambatovy nickel mining project in Madagascar. **Opportunities may exist for French companies** in the provision of services or goods on the margins of extraction activities: energy supply or energy services including the provision of autonomous solutions via renewable energies, solar or mini-hydoelectricity (Total, Air Liquide, Engie Energy Access, Schneider Electric, etc.); transport and logistics (Colas, Bolloré), telecommunications (Orange, Sagemcom); restoration (Nas-Servair, Newrest); or security.

Social and environmental regulations are unevenly adopted and enforced

Although people are frequently displaced during the construction of mines, working conditions in artisanal mines are often not optimal, even dangerous sometimes. In 2019, the Kenyan government closed about forty artisanal gold mines in Migori County for reasons related to exposure to dangerous working conditions (mine collapse, chemical treatment of gold, mercury exposure), and illegal child labor. In 2012, Rwanda stopped all mineral production on the banks of the Sebeya River, one of the richest areas in the country because mining activity had a lasting impact on the ecosystem of the area**.**

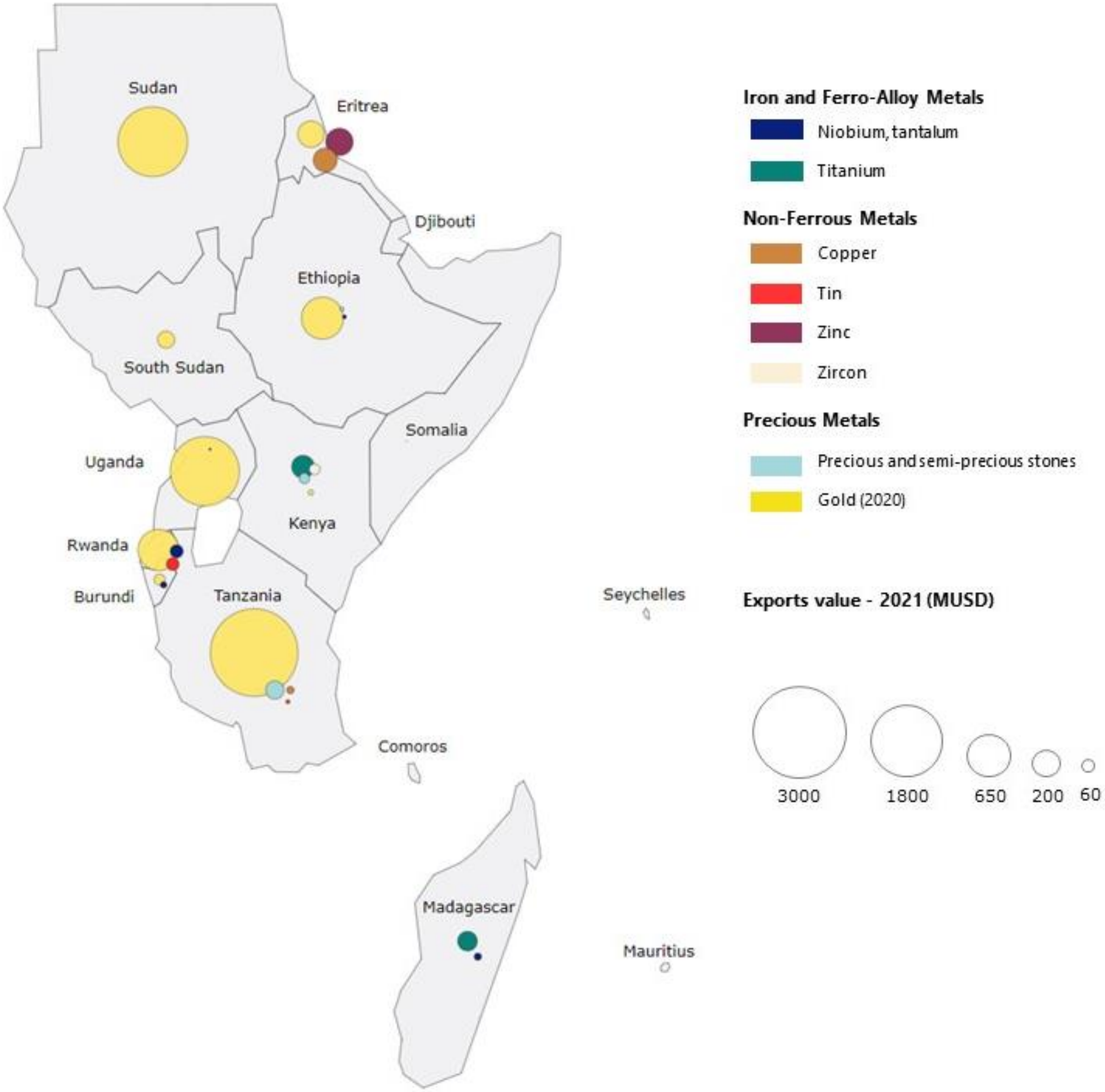
Despite the existence of environmental regulations and policies in most countries, in addition to the environmental authorities that enforce them, the degradation remains significant. While the artisanal and small-scale mining sector has a lower risk factor per site, its ability to anticipate and contain accidents is also low. These activities can thus contribute to soil depletion, water contamination, loss of biodiversity, or generation of explosions and fires. The construction of mines also accentuates the phenomenon of deforestation. In Kenya, the sector has contributed significantly to the loss of native trees, grasslands, forests and farmlands. Local mining activities also contribute to air pollution.

Transparency is also key in promoting sound governance of the sector; ensuring equitable distribution of revenues between governments and mining companies and generating positive social and economic benefits for the country. For example, Rwanda is regularly accused of illegally importing minerals (gold and coltan) from the eastern regions of the DRC. Several countries in the region (Ethiopia, Madagascar, Seychelles, Tanzania and Uganda) have thus committed to strengthening the transparency and accountability of their extractive sector by joining **the Extractive Industries Transparency Initiative (EITI), and by committing to implement the EITI Standard**.

In sum...

The AEOI is home to a diverse range of mineral resources, whose deposits are not well-known owing to insufficient geological research. However, some countries stand out globally as major mineral producers. The sector is however plagued by structural issues and is dominated by artisans. Regulatory reforms are being implemented to make the sector attractive to foreign investors.

Main mineral exports in EAOI in 2021, in value



Source: Map edited by the Regional Economic Department with TradeMap data

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